

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Township of Sylvan	County Washtenaw
Audit Date March 31, 2005	Opinion Date May 20, 2005	Date Accountant Report Submitted To State: December 6, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1000 Oakbrook Drive, Suite 400	City Ann Arbor	State MI	ZIP 48104
Accountant Signature <i>Plante & Moran, PLLC</i>			

Township of Sylvan, Michigan

Financial Report
with Supplemental Information
March 31, 2005

Township of Sylvan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Fund - General Fund:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Fund - Water and Sewer Fund:	
Statement of Net Assets	14
Statement of Revenue, Expenses, and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Fund - Statement of Net Assets and Liabilities	17
Notes to Financial Statements	18-30
Required Supplemental Information	31
Budgetary Comparison Schedule - General Fund	32



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Independent Auditor's Report

To the Township Board
Township of Sylvan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Sylvan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Sylvan, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Sylvan as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Township Board
Township of Sylvan, Michigan

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004

Plante & Moran, PLLC

May 20, 2005

Township of Sylvan

Management's Discussion and Analysis

Our discussion and analysis of the Township of Sylvan, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- Charges for services increased by approximately \$73,000 because of increased development activity, primarily in the urban area of the Township. Since most of these revenues are offset by associated costs for the engineering, planning, and legal reviews by the Township, there was little net impact on the General Fund fund balance from this increase.
- Governmental Accounting Standards No. 34 ("GASB 34") was adopted as of April 1, 2004. As this is the first year for recording governmental activities on a full accrual basis, comparative data is not included in this analysis or in the financial statements. In the subsequent years, comparative data will be included.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Sylvan

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in thousands of dollars):

	Governmental Activities	Business-type Activities	Total
	2005	2005	2005
Current assets	\$ 973,722	\$ 9,025,428	\$ 9,999,150
Noncurrent assets	914,946	16,196,245	17,111,191
Total assets	1,888,668	25,221,673	27,110,341
Current liabilities	102,819	938,811	1,041,630
Long-term liabilities	72,000	13,642,310	13,714,310
Total liabilities	174,819	14,581,121	14,755,940
Net assets:			
Invested in capital assets - Net of related debt	914,946	1,995,010	2,909,956
Restricted	-	7,647,201	7,647,201
Unrestricted	798,903	998,341	1,797,244
Total net assets	<u>\$ 1,713,849</u>	<u>\$ 10,640,552</u>	<u>\$ 12,354,401</u>

The Township's combined net assets decreased 1.3 percent from a year ago - decreasing from \$12,523,333 to \$12,354,401.

Township of Sylvan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars):

	Governmental Activities	Business-type Activities	Total
	2005	2005	2005
Revenue			
Program revenue:			
Charges for services	\$ 156,172	\$ -	\$ 156,172
Capital grants and contributions	-	152,000	152,000
General revenue:			
Property taxes	441,638	-	441,638
State-shared revenue	184,172	-	184,172
Investment earnings	9,038	549,278	558,316
Total revenue	791,020	701,278	1,492,298
Program Expenses			
General government	540,842	-	540,842
Public safety	156,540	-	156,540
Public works	19,386	-	19,386
Water and sewer	-	944,462	944,462
Total program expenses	716,768	944,462	1,661,230
Change in Net Assets	\$ 74,252	\$ (243,184)	\$ (168,932)

In future years, comparative information will be available, which will allow enhanced analysis of the changes in the City's net assets and the causes thereof; however, comparative information is not required in the first year of implementation of GASB Statement No. 34 and is not readily available this year.

Governmental Activities

The Township's total governmental revenues increased by approximately \$90,000 due to increases in property taxes and charges for services related to planning and zoning.

Expenses decreased by about \$141,000 during the year. The primary reason for this decrease was that governmental debt related to installment purchase agreements for various parcels of land were paid off in their entirety in the previous year. Last year, these debt service payments totaled approximately \$189,000. Another significant decrease in the current year is the cost for fire protection.

Township of Sylvan

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. The Water and Sewer Fund accounts for the construction and subsequent debt service of the Sylvan Township Water and Sewer Authority water treatment plant. The plant went on-line in October 2003. Debt service payments related to the plant are paid using the proceeds from special assessments.

In addition, the Water and Sewer Fund paid expenses related to the Sylvan Township Water and Sewer Authority and reimbursed the General Fund and the Tax Collection Fund for similar costs that these funds had previously paid. At the end of the fiscal year, the amount of such costs that had been paid or reimbursed by the Water and Sewer Fund amounted to \$126,979. A receivable for that amount has been established in the Water and Sewer Fund. The future collection of this receivable cannot be ascertained with certainty, and so an allowance for doubtful accounts has been recorded for that same amount in the Water and Sewer Fund as of March 31, 2005.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the individual funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township has three funds: the General Fund, the Water and Sewer Fund, and the Tax Collection Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township monitored and amended the budget as needed to take into account events during the year. Budget amendments in the current year were minimal. Township departments overall stayed below budget. Along with the amount originally budgeted as surplus funds, this allowed the General Fund's fund balance to increase from \$457,923 to \$525,071.

Township of Sylvan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of the fiscal year ended March 31, 2005, the Township had approximately \$17,100,000 invested in a broad range of capital assets, including the Sylvan Township Water and Sewer Authority plant, Township Hall, other parcels of land, office furniture, and equipment.

At the end of the fiscal year ended March 31, 2005, the Township had approximately \$14,200,000 outstanding in debt related to the aforementioned plant. Also, the Township owes an estimated \$76,000 related to the City of Chelsea's closed landfill site.

In 2001, the Township entered into an agreement with the Charter Township of Grass Lake ("Grass Lake"). As part of the agreement, Sylvan Township would construct a sanitary sewer interceptor line to transport wastewater from the Sylvan Township Sewer System through Grass Lake and Leoni Township to the Leoni Wastewater Treatment facility. In exchange, Grass Lake would reimburse Sylvan Township for this construction as Grass Lake residents connect to the interceptor line. The total amount owed to Sylvan Township from Grass Lake was recently calculated to be \$2,117,369, plus interest of \$351,899. To date, Sylvan Township has received \$4,000 from Grass Lake. At this time, it is uncertain when or if Grass Lake residents will connect to the interceptor line and Sylvan will be reimbursed.

Economic Factors and Next Year's Budgets and Rates

The next year will be the first year that the Township will feel the effect from the reduced tax base that resulted from the Village of Chelsea becoming a city. The Township's budget for the year has been carefully crafted to produce a small surplus. Although the General Fund has a significant fund balance, the reduced tax base will curtail the growth of that fund for the foreseeable future.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Township of Sylvan

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 2)	\$ 641,222	\$ 1,058,123	\$ 1,699,345
Receivables (Note 3)	117,655	7,731,652	7,849,307
Internal balances	(117,232)	117,232	-
Other assets	-	118,421	118,421
Restricted assets (Note 1)	-	1,329,675	1,329,675
Investment in joint ventures	332,077	-	332,077
Capital assets - Net (Note 4)	914,946	14,866,570	15,781,516
Total assets	1,888,668	25,221,673	27,110,341
Liabilities			
Accounts payable	42,818	-	42,818
Accrued and other liabilities	56,001	379,886	435,887
Noncurrent liabilities (Note 5):			
Due within one year	4,000	558,925	562,925
Due in more than one year	72,000	13,642,310	13,714,310
Total liabilities	174,819	14,581,121	14,755,940
Net Assets			
Invested in capital assets - Net of related debt	914,946	1,995,010	2,909,956
Restricted for special assessments	-	7,647,201	7,647,201
Unrestricted	798,903	998,341	1,797,244
Total net assets	<u>\$ 1,713,849</u>	<u>\$ 10,640,552</u>	<u>\$ 12,354,401</u>

Township of Sylvan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions Capital Grants and Contributions
Functions/Programs			
Primary government - Governmental activities:			
General government	\$ 540,842	\$ 128,798	\$ -
Public safety	156,540	27,374	-
Public works	19,386	-	-
Total governmental activities	716,768	156,172	-
Business-type activities - Water and sewer	944,462	-	152,000
Total primary government	<u>\$ 1,661,230</u>	<u>\$ 156,172</u>	<u>\$ -</u>
General revenues:			
Property taxes			
State-shared revenues			
Investment earnings			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (412,044)	\$ -	\$ (412,044)
(129,166)	-	(129,166)
<u>(19,386)</u>	<u>-</u>	<u>(19,386)</u>
(560,596)	-	(560,596)
<u>-</u>	<u>(792,462)</u>	<u>(792,462)</u>
(560,596)	(792,462)	(1,353,058)
441,638	-	441,638
184,172	-	184,172
<u>9,038</u>	<u>549,278</u>	<u>558,316</u>
<u>634,848</u>	<u>549,278</u>	<u>1,184,126</u>
74,252	(243,184)	(168,932)
<u>1,639,597</u>	<u>10,883,736</u>	<u>12,523,333</u>
<u>\$ 1,713,849</u>	<u>\$ 10,640,552</u>	<u>\$ 12,354,401</u>

Township of Sylvan

Governmental Fund - General Fund Balance Sheet March 31, 2005

Assets

Cash and investments	\$ 641,222
Receivables - Net of allowance for doubtful accounts	<u>117,655</u>
Total assets	<u><u>\$ 758,877</u></u>

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 42,818
Accrued and other liabilities	56,001
Due to other funds	117,232
Deferred revenue	<u>17,755</u>
Total liabilities	233,806

Fund Balances

Unreserved - Designated	76,000
Unreserved - Undesignated	<u>449,071</u>
Total fund balances	<u>525,071</u>
Total liabilities and fund balances	<u><u>\$ 758,877</u></u>

Fund Balance - Total Governmental Funds

\$ 525,071

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	914,946
Property tax receivables are not available to pay for current year expenditures	17,755
Investment in joint ventures is not reported in the funds	332,077
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(76,000)</u>
Net assets of governmental activities	<u><u>\$ 1,713,849</u></u>

Township of Sylvan

Governmental Fund - General Fund Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

Revenue

Property taxes	\$ 320,248
Administration fee	129,447
State sources	184,172
Local sources	2,874
Charges for services	88,300
Interest	9,038
Rent	9,125
Other	<u>28,499</u>
Total revenue	771,703

Expenditures

General government	513,414
Public safety	167,755
Public works	<u>23,386</u>
Total expenditures	<u>704,555</u>

Excess of Revenue Over Expenditures

67,148

Fund Balances - Beginning of year, as restated (Note 11)

457,923

Fund Balances - End of year

\$ 525,071

Township of Sylvan

Governmental Fund - General Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	67,148
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Amounts reported for governmental activities in the statement of activities are different because:

Depreciation on capital assets is recorded in the statement of activities; it is not recorded at the fund level	(27,428)
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Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(8,057)
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Change in the investment in joint ventures is recorded on the statement of activities; it is not recorded at the fund level	38,589
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Repayment of debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>4,000</u>
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Change in Net Assets of Governmental Activities	\$	<u>74,252</u>
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Township of Sylvan

Proprietary Fund - Water and Sewer Fund Statement of Net Assets March 31, 2005

Assets

Current assets:

Cash	\$ 1,058,123
Due from other funds	117,232
Due from other governmental units - Net of allowance for doubtful accounts (Note 3)	-
Accrued interest receivable	84,451
Total current assets	1,259,806

Noncurrent assets:

Bond discount - Net	118,421
Restricted assets	1,329,675
Special assessment receivable	7,647,201
Construction in progress	1,916,137
Capital assets - Net	12,950,433
Total noncurrent assets	23,961,867
Total assets	25,221,673

Liabilities

Current liabilities:

Retainage payable	106,910
Accrued interest	272,976
Current portion of long-term debt	558,925
Total current liabilities	938,811

Noncurrent liabilities - Long-term debt - Net of current portion	13,642,310
Total liabilities	14,581,121

Net Assets

Investment in capital assets - Net of related debt	1,995,010
Restricted for special assessments	7,647,201
Unrestricted	998,341
Total net assets	\$ 10,640,552

Township of Sylvan

Proprietary Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

Operating Expenses

Depreciation and amortization	\$ (270,219)
Bad debt expense	<u>(126,979)</u>
Total operating expenses	(397,198)

Nonoperating Revenue (Expense)

Interest income	549,278
Interest expense	<u>(547,264)</u>
Total nonoperating revenue	2,014

Capital Contributions - Water and sewer tap-in fees	<u>152,000</u>
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Change in Net Assets	(243,184)
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Net Assets - Beginning of year	<u>10,883,736</u>
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Net Assets - End of year	<u><u>\$ 10,640,552</u></u>
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Township of Sylvan

Proprietary Fund - Water and Sewer Fund Statement of Cash Flows Year Ended March 31, 2005

Cash Flows from Capital and Related Financing Activities

Receipts from other funds and other governmental units	\$ 748,289
Purchase of capital assets	(1,300,446)
Collection of tap-in fees	152,000
Proceeds from long-term debt	2,501,235
Principal and interest paid on long-term debt	(908,308)
Collection of customer assessments and interest on assessments	<u>1,110,556</u>
Net cash provided by financing activities	2,303,326

Cash Flows from Investing Activities - Interest received on bank deposits 1,210

Net Increase in Cash and Cash Equivalents 2,304,536

Cash and Cash Equivalents - Beginning of year 83,262

Cash and Cash Equivalents - End of year \$ 2,387,798

Balance Sheet Classification of Cash and Cash Equivalents

Cash	\$ 1,058,123
Restricted assets (Note 1)	<u>1,329,675</u>

Total Cash and Cash Equivalents \$ 2,387,798

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (397,198)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	270,219
Bad debt expense	<u>126,979</u>
Net cash used in operating activities	<u><u>\$ -</u></u>

Noncash Activities - There were no noncash activities during the year ended March 31, 2005.

Township of Sylvan

Fiduciary Fund Statement of Assets and Liabilities March 31, 2005

Assets - Cash and cash equivalents	<u><u>\$ 76,212</u></u>
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Liabilities - Due to other governmental units	<u><u>\$ 76,212</u></u>
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Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Sylvan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Sylvan:

Reporting Entity

The Township of Sylvan is governed by an elected five-member board.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. State-shared revenue meets the availability criterion.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's only governmental fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary fund:

Proprietary - Water and Sewer Fund - The Water and Sewer Fund is the Township's only proprietary fund. It accounts for the construction of the Sylvan Township Water and Sewer Authority's water treatment plant.

Additionally, the Township reports the following fund type:

Agency Fund - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The Water and Sewer Fund recognizes tap fees intended to recover the cost of the infrastructure as nonoperating revenue. Operating expenses for proprietary funds include administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation of the Township totaled approximately \$330,000,000, on which taxes levied consisted of .9474 mills for operating purposes which resulted in revenue totaling approximately \$310,000. This amount is recognized in the General Fund's financial statement as tax revenue.

An administrative fee was charged to other governmental units for the collection and processing of property taxes. This administrative fee totaled approximately \$129,000.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Restricted Assets - Unspent bond proceeds from the contractual obligations to Washtenaw County totaling \$1,329,675 have been classified as restricted assets and are restricted for water and sewer system construction. This amount is held by Washtenaw County.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$45,623 of interest expense was capitalized as part of the cost of assets under construction.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	7 years
Buildings, improvement, and distribution lines	40 to 50 years
Leasehold improvements	20 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the Township's financial statements.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the Township's financial statements.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Township of Sylvan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 641,222	\$ 1,058,123	\$ 76,212	\$ 1,775,557

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 2 - Deposits and Investments (Continued)

Deposits

The Township's cash at March 31, 2005 consists solely of deposits with financial institutions. The bank balance of the Township's deposits is \$2,274,049, of which \$185,653 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Receivables

Receivables as of year end for the Township are as follows:

	General Fund	Water and Sewer Fund	Total
Receivables:			
Taxes	\$ 17,755	\$ -	\$ 17,755
Intergovernmental	133,096	126,979	260,075
Special assessments	-	7,647,201	7,647,201
Interest and other	-	84,451	84,451
Less allowance for doubtful accounts	<u>(33,196)</u>	<u>(126,979)</u>	<u>(160,175)</u>
Net receivables	<u>\$ 117,655</u>	<u>\$ 7,731,652</u>	<u>\$ 7,849,307</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The Township has recorded deferred revenue of \$ 17,755 for delinquent property taxes that are unavailable as of March 31, 2005.

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 256,405	\$ -	\$ -	\$ 256,405
Capital assets being depreciated:				
Buildings and improvements	764,985	-	-	764,985
Equipment	58,123	-	-	58,123
Subtotal	823,108	-	-	823,108
Accumulated depreciation:				
Buildings and improvements	95,623	19,125	-	114,748
Equipment	41,516	8,303	-	49,819
Subtotal	137,139	27,428	-	164,567
Net capital assets being depreciated	685,969	(27,428)	-	658,541
Net capital assets	<u>\$ 942,374</u>	<u>\$ (27,428)</u>	<u>\$ -</u>	<u>\$ 914,946</u>

Depreciation expense for governmental activities was \$27,428 for the year ended March 31, 2005. All depreciation expense was charged to general government programs.

	Balance April 1, 2004 (as restated - Note 12)	Additions	Disposals and Adjustments	Balance March 31, 2005
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 98,350	\$ -	\$ -	\$ 98,350
Construction in progress	-	1,916,137	-	1,916,137
Subtotal	98,350	1,916,137	-	2,014,487
Capital assets being depreciated:				
Building and distribution lines	13,067,011	4,527	-	13,071,538
Leasehold improvements	-	44,185	-	44,185
Subtotal	13,067,011	48,712	-	13,115,723
Accumulated depreciation:				
Building and distribution lines	-	261,431	-	261,431
Leasehold improvements	-	2,209	-	2,209
Subtotal	-	263,640	-	263,640
Net capital assets being depreciated	13,067,011	(214,928)	-	12,852,083
Net capital assets	<u>\$ 13,165,361</u>	<u>\$ 1,701,209</u>	<u>\$ -</u>	<u>\$ 14,866,570</u>

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 5 - Long-term Debt

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Group - Landfill postclosure costs	N/A	\$4,000	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ 76,000</u>	<u>\$ 4,000</u>
Business-type Activities							
General obligation bonds:							
Contractual obligations with							
Washtenaw County							
Amount of issue \$12,500,000	3.75% -	\$400,000 -					
Maturing through 2024	6.75%	\$900,000	\$ 12,100,000	\$ -	\$ 400,000	\$ 11,700,000	\$ 400,000
Contractual obligations with							
Washtenaw County							
Amount of issue \$2,501,235	4.85%	\$110,025 -					
Maturing through 2022		\$244,500	<u>-</u>	<u>2,501,235</u>	<u>-</u>	<u>2,501,235</u>	<u>158,925</u>
Total business-type activities			<u>\$ 12,100,000</u>	<u>\$ 2,501,235</u>	<u>\$ 400,000</u>	<u>\$ 14,201,235</u>	<u>\$ 558,925</u>

The contractual obligations represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. At March 31, 2005, there is \$7,647,202 of special assessments receivable in the future. Under Michigan law, Act 185, Public Acts of Michigan 1957, as amended, the Township has pledged its full faith and credit for payment of these bonds.

The Township has entered into an agreement with the City of Chelsea (the "City") to pay 6.75 percent of certain future costs that the City may incur in connection with the monitoring and remediation of the City's closed landfill site. This activity is being directed by the Michigan Department of Environmental Quality. State and federal laws and regulations require the City of Chelsea to perform some remediation to the landfill site and to place a final cover on the landfill as it no longer has capacity to accept solid waste. Additionally, the City is required to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. As of February 28, 1995, all costs of closure have been incurred. Future monitoring costs are estimated by the City to approximate \$60,000 per year.

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2006	\$ 558,925	\$ 634,845	\$ 1,193,770
2007	644,500	600,704	1,245,204
2008	744,500	577,717	1,322,217
2009	744,500	551,918	1,296,418
2010	646,700	519,474	1,166,174
2011-2015	3,681,910	2,112,240	5,794,150
2016-2020	4,250,125	1,223,371	5,473,496
2021-2023	2,930,075	212,469	3,142,544
Total	<u>\$ 14,201,235</u>	<u>\$ 6,432,738</u>	<u>\$ 20,633,973</u>

Note 6 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Employees may make voluntary contributions up to the lesser of \$7,500 or 33.3 percent of the employee's includable compensation. The Township has committed to and is currently making contributions totaling 7.65 percent of includable compensation. Full vesting takes place immediately for all contributions and related account earnings. The Township contributed \$6,018 during the year, and employees contributed \$14,824.

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 8 - Budgetary Information

The annual budget is prepared by the Township supervisor and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2005 has not been calculated. The budget was amended during the year.

The budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Township board is included in the required supplemental information. The budget overrun of the contingency line item was adequately covered by the excess of revenues over expenditures.

Note 9 - Joint Venture

The Township is a member of the Chelsea Area Fire Authority (the "Fire Authority"), which provides services to the residents of the Township of Sylvan, the Township of Lima, the Township of Lyndon, the Township of Waterloo, and the City of Chelsea. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$156,000 for its operations. An equity interest of \$199,149 in the Fire Authority has been recorded on the Township's statement of net assets. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Fire Authority can be obtained from the administrative offices at 200 West Middle, Chelsea, Michigan 48118.

The Township is a member of the Chelsea Area Construction Agency (the "Agency"), which serves the Township of Sylvan, the Township of Lima, the Township of Lyndon, the Township of Sharon, the Township of Dexter, and the City of Chelsea. The Agency provides construction application services for the residents of these communities. The Agency is self-supporting. The Township does not receive any revenue from the Agency's results of operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. An equity interest of \$132,928 in the Agency has been recorded on the Township's statement of net assets. Complete financial statements for the Chelsea Area Construction Agency can be obtained from the administrative offices at 18027 Old U.S.12, Chelsea, Michigan 48118.

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 9 - Joint Venture (Continued)

The Township is a member of the Sylvan Township Water and Sewer Authority (the "Authority"). The Authority oversees the operation of a water and wastewater treatment plant and sewer system. The plant and sewer system will provide services to the residents of the Township of Sylvan, the Township of Lima, and the Township of Lyndon. The board of the Authority consists of three representatives from the Township of Sylvan and one representative each from the Township of Lima and the Township of Lyndon. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The Township is a member of the Western Washtenaw Recycling Authority (the "Recycling Authority"), which serves the Township of Sylvan and other local municipalities. The Recycling Authority provides recycling services for the residents of these communities. The Recycling Authority is self-supporting. The Township does not receive any revenue from the Recycling Authority's results of operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Western Washtenaw Recycling Authority can be obtained from the administrative offices at 8025 Werkner Road, Chelsea, Michigan 48118.

Note 10 - Contingent Liabilities

As a result of a public referendum, the Village of Chelsea became the City of Chelsea as of March 8, 2004. As a result of this referendum and incorporation, the City of Chelsea may be entitled to a portion of assets currently held by Sylvan Township. The Township is currently addressing this matter with the City. At this time, the Township is unable to quantify the amount, if any, due to the City.

Note 11 - Prior Period Adjustment

The General Fund's fund balance as of March 31, 2004 has been adjusted for correction of an error regarding receivables from other governmental units in the amount of \$35,817. Fund balance is adjusted as follows:

Fund Balance - March 31, 2004 - As originally stated	\$ 457,923
Due from other governmental units - Previously recorded as expenditures	35,817
Allowance for doubtful accounts - Previously unrecorded	<u>(35,817)</u>
Fund Balance - March 31, 2004 - As corrected	<u><u>\$ 457,923</u></u>

Township of Sylvan

Notes to Financial Statements March 31, 2005

Note 11 - Prior Period Adjustment (Continued)

The Water and Sewer Fund's capital assets as of March 31, 2004 has been adjusted to correct \$13,165,361 of construction in progress that should have been recorded as land and building. Capital assets have been adjusted as follows:

	Construction in Progress	Land	Buildings and Distribution Lines	Total
March 31, 2004 - As originally stated	\$ 13,165,361	\$ -	\$ -	\$ 13,165,361
Reclassifications	<u>(13,165,361)</u>	<u>98,350</u>	<u>13,067,011</u>	<u>-</u>
March 31, 2004 - As corrected	<u>\$ -</u>	<u>\$ 98,350</u>	<u>\$ 13,067,011</u>	<u>\$ 13,165,361</u>

Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Sylvan has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure
- Capital assets in the governmental activities column of the statement of net assets not previously accounted for by the Township as well as assets totaling approximately \$915,000 that would previously have been reported in the General Fixed Assets Account Group
- Equity interests in joint ventures are recorded as assets on the statement of net assets. These interests were not previously recorded
- The governmental activities column includes bonds and other long-term obligations totaling \$76,000 previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

Township of Sylvan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property tax collection	\$ 315,000	\$ 315,000	\$ 320,248	\$ 5,248
Administration fee	121,000	121,000	129,447	8,447
State revenue sharing	190,000	190,000	184,172	(5,828)
Solid waste distribution	6,000	6,000	2,874	(3,126)
Fee schedule receipts	15,000	15,000	88,300	73,300
Interest on accounts	12,000	12,000	9,038	(2,962)
Other	29,000	29,000	37,624	8,624
Total revenue	688,000	688,000	771,703	83,703
Expenditures				
Supervisor salary	24,885	24,885	23,503	1,382
Supervisor office	2,500	2,500	31	2,469
Treasurer salary	22,795	22,795	22,795	-
Treasurer office	2,500	2,500	3,223	(723)
Deputy treasurer	1,500	1,500	331	1,169
Clerk salary	22,795	22,795	22,795	-
Clerk office	2,500	2,500	3,327	(827)
Deputy clerk	500	500	288	212
Trustees	5,000	5,000	4,920	80
Assessor salary	38,000	38,000	37,216	784
Assessor office	2,250	2,250	1,410	840
Receptionist	4,000	4,000	3,864	136
Elections	20,000	20,000	6,313	13,687
Legal	60,000	60,000	62,555	(2,555)
Audit	25,000	26,200	27,180	(980)
Board of Review	3,000	3,000	680	2,320
Townhall Fund, building, and grounds	45,000	45,000	32,238	12,762
Cemeteries	600	600	1,000	(400)
MTA dues	5,000	5,000	5,075	(75)
American Legion	350	350	700	(350)
C.A.T.S.	2,500	2,500	-	2,500
Nationwide Retirement	9,000	9,000	8,291	709
Consultant fees	69,000	69,000	69,759	(759)
Zoning and enforcement officer	12,000	12,000	7,306	4,694
Zoning and enforcement office	2,000	2,000	74	1,926
Zoning Board of Appeals	5,000	5,000	3,885	1,115
Fire	180,000	180,000	156,490	23,510
Roads	20,000	20,000	15,332	4,668
Recycling and landfill monitoring	9,000	9,000	8,054	946
Insurance - Life, liability, workers' compensation	15,000	24,000	24,232	(232)
Contingencies	76,325	66,125	151,688	(85,563)
Total expenditures	688,000	688,000	704,555	(16,555)
Excess of Expenditures Over Revenue	-	-	67,148	\$ 67,148
Fund Balance - April 1, 2004	457,923	457,923	457,923	
Fund Balance - March 31, 2005	\$ 457,923	\$ 457,923	\$ 525,071	

May 20, 2005

Members of the Township Board
Township of Sylvan
18027 Old U.S. 12
Chelsea, MI 48118

Dear Members of the Township Board:

We have recently completed our audit of the financial statements of the Township of Sylvan for the year ended March 31, 2005. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration.

INTERNAL CONTROLS

During our review of bank reconciliations we noted that the monthly reconciliations are not being properly reviewed and approved. In order to maintain effective control over bank reconciliations someone should review the work of the preparer. At a minimum, someone should agree the bank balance to the bank statement, the book balance to the general ledger, and reconciling items (deposits in transit, outstanding check list, other) to supporting schedules. The person reviewing the bank reconciliations should sign and date the reconciliation in order to document that the review was performed.

The Township has no formal written capitalization policy for capital assets. We recommend the Township adopts a written policy to establish your position of capitalizing items. If expenditure for a new asset meets or exceeds your capitalization threshold, it should be recorded as a capital asset.

The Township has an Office Depot credit card that is used by Township employees, however, there is no credit card usage policy in place. Public Act 266 of 1995 authorizes the use of credit cards by local units of government for appropriate expenses. The act also sets specific criteria which must be followed. Further guidance on adopting the resolution and the suggested wording can be found on the Department of Treasury's website at http://www.michigan.gov/treasury/0,1607,7-121-1751_2194-7699--,00.html.

GENERAL ACCOUNTING

During our audit, we noted numerous transactions relating to the water and sewer fund being recorded in the tax fund. The tax fund does collect the water and sewer fund special assessment revenues, however, this money should be moved to the water and sewer fund bank account via a bank transfer rather than water and sewer expenditures being paid out of the tax fund. All water and sewer fund expenditures should be paid out of the water and sewer fund bank account.

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Members of the Township Board
Township of Sylvan

May 20, 2005

In addition, we noted that the tax fund transactions are entered into Quickbooks and are not recorded in the general ledger. We recommend the Township set up a tax fund in the general ledger system which will allow them to post the transactions to account numbers which will assist in the accounting and tracking of receipts and disbursements.

We also observed the Township funding expenditures for the Sylvan Township Water and Sewer Authority but not maintaining a list of those amounts and determining how much will eventually be repaid to the Township. The Township was able to prepare a listing as of March 31, 2005 that represents the receivable from the Authority.

Invoices and such paid by the Township on behalf of the Authority should be recorded in three different ways. Amounts that will be reimbursed by the Authority should be recorded as a receivable due from the Authority, not as an expenditure. Amounts that will be reimbursed by Washtenaw County should be recorded as a receivable due from the County, not as an expenditure. Amounts that will not be reimbursed and are the responsibility of the Township should continue to be recorded as expenditures.

New Financial Statement Reporting Model – GASB 34

As we have discussed over the last several years, the Governmental Accounting Standards Board (GASB) issued a new pronouncement that changed the presentation of governmental financial statements. The Township fully implemented GASB Statement No. 34 as of April 1, 2004, which included restating the Township's financial information as of that date for these changes. Some of these changes include:

- The addition of a government-wide financial statement prepared on a full accrual basis
- Budgetary schedules comparing original budget and final amended budget to actual balances
- Capitalization and depreciation of fixed assets
- Recording an equity interest in the Chelsea Area Construction Agency.

The new financial statement model is intended to provide information about both the Library's current financial and total economic resources and will supplement the Library's current reporting perspective. The expected benefits of the new model include improved comparability of financial statements between governmental entities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

STATE REVENUE SHARING

As you are well aware, the slow down in the State's economy continues to directly affect the General Fund. State Shared revenue accounts for approximately 23.9% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, revenue sharing payments for the State's upcoming fiscal years are less than originally projected. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

Members of the Township Board
Township of Sylvan

May 20, 2005

To assist the Township in projecting state shared revenue payments, the Michigan Department of Treasury website is located at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp>. The only information required is the name of the local unit and its county.

We encourage the Township to monitor the revenue sharing projections posted on the State's website and consider whether a budget adjustment will be necessary.

PLANNING FOR THE FUTURE

To aid the Township in planning for the future, we again encourage the Township to develop a five year financial plan. The plan would address financial areas including, but not limited to, new forms of revenue, decrease or control of expenditures, future capital expenditures, and debt administration.

We would like to thank the entire Township staff for the cooperation and assistance we received in completing this year's audit. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek



Brian J. Camiller